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THE DEFINITION OF ECONOMICS

In hope of attracting the attention of economists to the definition of economics proposed in my book, *Enterprise and the Production Process*, I desire to point out a remarkable coincidence between the logical distinctions and processes by which this definition was obtained, and those employed by Mr. Herbert Spencer in distinguishing actions primarily social from other human activities.

To obtain my definition, I started with the assumption that economics is the moral science concerned with the laws and tendencies regulating a certain class of voluntary human actions, and that its definition depends upon accurately differentiating this class from other human activities. The first division of human activities is, of course, that between the individualistic and the coördinated or combined. Economic activities being a subclass of the latter, the problem is thus narrowed down to distinguishing economic from other coördinated or combined actions. I then found this distinction to be the character of the purpose leading to the different kinds of voluntary human actions. Social actions are prompted by a public purpose, that is, undertaken for the real or supposed good of the social group as a whole, and the share of the joint benefits of the results attained that accrues to any individual member of the group, is necessarily unpreetermined. On the other hand, economic activities are prompted by individualistic purposes, and therefore the necessary preliminary to combined economic action is a definite understanding as to what share of the product or result is to accrue to each individual voluntarily entering into the productive combination. When the product is divisible, this definite prearrangement as to the distribution of the product can be effected by allotting a certain percentage to each contributor. When not susceptible of division into percentages, it is the distribution of the value of the product, and not the product itself, which is prearranged and as a rule is effected by the employer's assuming the risk of the enterprise, and awarding definite prearranged amounts of values to the other contributors to the result, and keeping what is left for himself.

The passage in Mr. Spencer's writings to which I refer is as follows:¹

¹ Herbert Spencer, *Sociology*, vol. II, p. 244-247 (1898 edition), D. Appleton and Company. The italics are mine.

Coöperation, then, is at once that which cannot exist without a society, and that for which a society exists. But co-operation implies organization. If acts are to be effectually combined, there must be arrangements under which they are adjusted in their times, amounts, and characters. This social organization, necessary as a means to concerted action, is of two kinds. Though these two kinds generally co-exist, and are more or less interfused, *yet they are distinct in their origins and natures*. There is a spontaneous co-operation which grows up without thought during the pursuit of *private ends*; and there is a coöperation which, consciously devised, implies *distinct recognition of public ends*. The ways in which the two are respectively established and carried on, present marked contrasts. Whenever, in a primitive group, there begins that coöperation which *is effected by exchange of services*—whenever individuals find their wants better satisfied by giving certain products which they can make best, in return for other products they are less skilled in making, or not so well circumstanced for making, there is initiated a kind of organization which then, and throughout its higher stages, results from endeavors to meet personal needs. Division of labour, to the last as at first, grows by experience of mutual facilitations in living. Each new specialization of industry arises from the *effort of one who commences it to get profit*; and establishes itself by conducting in some way to the profit of others. So that there is a kind of concerted action, with an elaborate social organization developed by it, which does not originate in deliberate concert. *Though within the small subdivisions of this organization, we find everywhere repeated the relation of employer and employed*, of whom the one directs the actions of the other; yet this relation, spontaneously formed in aid of private ends and continued only at will, is not formed with conscious reference to achievement of public ends: these are not thought of. And though, for regulating trading activities, there arise agencies serving to adjust the supplies of commodities to the demands; yet such agencies do this not by direct stimulations or restraints; but by communicating information which serves to stimulate or restrain; and, further, these agencies grow up not for the avowed purpose of thus regulating, but in the pursuit of gain by individuals. So unintentionally has there arisen the elaborate division of labour *by which production and distribution are now carried on*, that only in modern days has there come a recognition of the fact that it has all along been arising.

On the other hand, coöperation for a purpose immediately concerning the whole society, is a conscious coöperation; and is carried on by an organization of another kind, formed in a different way. When the primitive group has to defend itself against other groups, its members act together under further stimuli than those constituted *by purely personal desires*. So that this kind of social organization is distinguished from the other, as arising *through conscious pursuit of public ends*; in furtherance of which individual wills are constrained first by the joint wills of the entire group, and afterwards more definitely by the will of a regulative agency which the group evolves.

Most clearly we perceive the contrast between these two kinds of organization on observing that, while they are both instrumental to social welfare, *they are instrumental in converse ways*. That organization shown us by *the division of labour for industrial purposes*, exhibits combined action; but it is a combined action which directly *seeks and subserves the welfares of individuals, and indirectly subserves the welfare of society as a whole by preserving individuals*. Conversely, that organization evolved for governmental and defensive purposes, exhibits combined action; but it is a combined action which *directly seeks and subserves the welfare of the society as a whole, and indirectly subserves the welfare of individuals by protecting the society*. Efforts for self-preservation by the units originate the one form of organization; while efforts for self-preservation by the aggregate originate the other form of organization. In the first case there is *conscious pursuit of private ends only*; and the correlative organization resulting from this pursuit of private ends, growing up unconsciously, is without coercive power. In the second case, there is *conscious pursuit of public ends*; and the correlative organization, consciously established, exercises coercion.

Of these two kinds of coöperation and the structures effecting them, we are here concerned with only one. Political organization is to be understood as that part of social organization which consciously carries on directive and restraining functions for public ends. It is true, as already hinted, and we shall see presently, that the two kinds are mingled in various ways—that each ramifies through the other more or less according to their respective degrees of predominance. *But they are essentially different in origin and nature*; and for the present we must, as far as may be, limit our attention to the last. . . .

Mr. Spencer's immediate purpose in these paragraphs is to differentiate coördinations with a public purpose, from other coördinations. By "public" he intends the state, or the community at large, and he claims such coördination to be primarily social. But he must surely be understood as also considering as primarily social such combined actions as have for their purpose the benefit of lesser groups, such as clubs, trade unions, etc., that hardly come under the term "public." The thing to be noted is that he refuses to recognize as primarily social any combined activities, the resulting benefit of which is not expected to accrue as an undivided whole to the group, and the final distribution of which will finally be, among the members composing the group, in unpredetermined portions.

Mr. Spencer, indeed, speaks of the excluded coördinations as social, but he is careful to point out that primarily they are not social, that the resulting benefits first accrue as private gains to individuals and that society is affected only secondarily, or, in other words, that human actions combined for private purposes,

while having social results, are not themselves social. That is to say, such actions furnish sociological data. Again, while Mr. Spencer nowhere calls the combinations for "private gain" economic, he invariably speaks of them in economic terms. Neither does he distinctly assert that when "private gain" is the end in view, the distribution of the product or of its value is always pre-arranged. But that he meant this is clearly evident from the fact that when the hope of "private gain," leading to coördination or combination, is indefinite and unpredetermined, the resulting action is social and not economic, as when a free-trader in hope of "private gain" votes for a protective tariff.

Surely I am not claiming too much in asserting that Mr. Spencer divided human actions into three classes coinciding exactly with my analysis of them—one class of individualistic actions and two classes of coöperative actions, one of which was primarily social and the other primarily economic. His classification and mine are in exact accord as far as they go. He did not, indeed, assert that individualistic actions are non-economic. Consequently, I cannot claim that Mr. Spencer agrees with me in this particular point, but it is only because he has not expressed himself. And as a purely individualistic activity cannot result in an exchangeable product, it is not likely he would have differed from me.

That Mr. Spencer's ideas and my own are practically identical does not, of course, prove that my definition of economics is the correct one, but it does, I think, entitle it to a careful consideration, especially as its acceptance would involve no little modification in the presentation of economic theory. Hardly an economic treatise now exists in which instances of individualistic or social activities being treated as primarily economic cannot be found.

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